

VZCZCXRO9246

PP RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #3443 3530527

ZNR UUUUU ZZH

P 180527Z DEC 08

FM AMEMBASSY TOKYO

TO RUEHC/SECSTATE WASHDC PRIORITY 9562

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/USDOC WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

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INFO RUEHFK/AMCONSUL FUKUOKA 1510

RUEHNH/AMCONSUL NAHA 3867

RUEHNAG/AMCONSUL NAGOYA 9472

RUEHKSO/AMCONSUL SAPPORO 2076

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SIPDIS

STATE FOR I/RF, PA/PR/FPC/W, IIP/G/EA, EAP/PD, R/MR,
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USTR FOR PUBLIC AFFAIRS OFFICE;
TREASURY FOR OASIA/IMI;
SECDEF FOR OASD/PA;
CP BUTLER OKINAWA FOR AREA FIELD OFFICE;
PACOM HONOLULU FOR PUBLIC DIPLOMACY ADVISOR

E.O. 12958: N/A

TAGS: OITIP KMDR KPAO JA

SUBJECT: TOKYO MEDIA REACTION - FED'S DECISION TO LOWER
INTEREST RATE

¶1. LEAD STORIES: Top stories on Thursday morning
included OPEC's decision to slash oil production.

¶2. "Stop Global Deflation" On the Fed's move to lower
the key interest rate to near zero, the liberal Asahi
editorialized (12/18): "Fed Chairman Bernanke decided
on the rate reduction in order to head off a nightmare
scenario of the world economy being drawn into
deflation by the U.S. If the U.S economy were to fall
into a deflationary spiral, production and employment
would decline substantially. The magnitude of the
economic downturn would be so great that neither
monetary policy nor fiscal tools would be able to
reverse it. Such a development would unleash a
nightmarish chain reaction around the world."

¶3. "Bold Policy Should Be Undertaken with Utmost Care"
The liberal Mainichi argued (12/18): "Slashing interest
rates to zero is a taboo for any central bank, given
that it is tasked with managing the economy through
controlling lending rates. Any central bank would
hesitate to take such a step. Now that the decision has
been made by the Fed, however, it is hoped that it will
have positive effects. At the same time, there are
worries that this bold policy may have the side effect
of distorting the market mechanism. It is necessary for
the U.S. federal government and the private sector, on
top of the Fed, to mobilize all available means so as
to implement measures that will help revitalize the
U.S. economy."

¶4. "Fed Cuts Rates" The conservative Sankei asserted
(12/18): "By drastically reducing the key interest
rate, the Fed made clear its stance of doing its utmost

to shore up the economy. The financial markets welcomed the decision with surprise. We hope the move will result in increased confidence in the Fed and turn around the bearish market sentiment."

¶5. "Fed Displays Courageous Posture to Overcome Crisis" The business-oriented Nikkei insisted (12/18): "It is still unknown to what extent the Fed's latest action will improve the U.S. financial environment, which has been virtually frozen.... However, it is important that the Fed expressed its resolve to promote economic recovery by using all available instruments. Together with a proactive fiscal policy on the part of the incoming Obama administration, the Fed's position will help mitigate excessive market anxiety."

SCHIEFFER